

Workers' Compensation Advisory Committee

December 9, 2015





Time	Agenda Topic	Presenter(s)
9:00am-9:20am	Welcome & General Updates <ul style="list-style-type: none"> • Introductions • Safety Message • 2016 Final Workers' Compensation Rate 	Vickie Kennedy Joel Sacks
9:20am-9:50am	Industrial Insurance State Fund Financial Overview	Rob Cotton
9:50am-10:20am	WCAC Finance Committee Meeting	Randi Warick
10:20am-10:35am	BREAK	
10:35am-10:55am	Insurance Services Metrics Dashboard	Vickie Kennedy
10:55am-11:55pm	JLARC Audit – WorkComp Strategies Presentation	Matt Bryant, WorkComp Strategies Vickie Kennedy
11:55am-12:00pm	Closing Comments & Adjourn	Vickie Kennedy and Joel Sacks



WELCOME & GENERAL UPDATES

Vickie Kennedy, Assistant Director for Insurance Services
Joel Sacks, Agency Director



Welcome & General Updates

- Introductions
- Updates



Safety Message

- <http://www.ini.wa.gov/Spanish>
 - <https://www.youtube.com/watch?v=BFJSs71frvs>



Adopted Rate Increase of 2% is Steady and Predictable

	2015	2016	2016	2016	2016
	Average	Adopted	Adopted	Break-even	Break-even
	Hourly Rate	% Change	Hourly Rate	Indication	Hourly Rate
Accident	\$0.353	2.6%	\$0.362	-4.3%	\$0.338
Medical Aid	\$0.215	0.0%	\$0.215	8.1%	\$0.233
Supplemental Pension	\$0.0894	6.25%	\$0.0950	9.8%	\$0.0982
Stay-at-Work	\$0.0071	-25.0%	\$0.0053	-49.1%	\$0.0036
Overall*	\$0.665	2.0%	\$0.677	1.1%	\$0.672
Net per \$100 of payroll	\$2.20	-1.0%	\$2.17	-1.8%	\$2.16

*Does not include retro
Based on year ending March 31, 2015 mix of business



Annual Financial Reports

Fiscal Year 2015 - July 2014 through JUNE 2015





Unmodified, “Clean” Opinions

Independent Auditors issued unmodified or “clean” opinions on:

- The Workers’ Compensation Program Comprehensive Annual Financial Report (CAFR)
- The Industrial Insurance Fund Annual Statutory Financial Information Report
- Review of actuarial estimates



Annual Financial Reports

will be coming to you before December 31, 2015

WCAC members will receive annual financial reports via an email from Vickie Kennedy.

Annual financial reports will be available on L&I's website at:
<http://www.lni.wa.gov/ClaimsIns/Insurance/Learn/StateFund/Reports>

If you wish to obtain a paper copy of annual financial reports, send an email to Rob Cotton at cotr235@lni.wa.gov.



Financial Reporting 10 Year Milestone

Our accomplishments include:

- Ten years of clean opinions
- Receiving 5 years (soon to be 6) of GFOA Certificates of Excellence in Financial Reporting
- Reduced CAFR preparation time by 25 days
- Reduced audit costs
- Assisted with State's goal to issue state CAFR by October 31st



INDUSTRIAL INSURANCE (STATE) FUND

FINANCIAL OVERVIEW

STATUTORY FINANCIAL INFORMATION
FISCAL YEAR 2016 THROUGH FIRST QUARTER
JULY 2015 - SEPTEMBER 2015

Rob Cotton

Workers' Compensation Accounting Manager

WCAC Meeting



Significant Financial Highlights

July 2015 through September 2015

The contingency reserve decreased \$269 million, from \$1,225 million on July 1, 2015 to \$956 million on September 30, 2015.



- Premiums are greater than current accident year incurred costs
- Realized gains on equities from rebalancing in July 2015



- Unrealized losses from equities due to the downturn in the stock market
- Projected liabilities for prior years' claim benefits were increased this quarter
- Unrealized losses from fixed income due to a rating change for a few bonds

With equities restated to reflect the recovery of the stock market the contingency reserve would be \$1,072 million on November 30, 2015.



Potential changes for 2016 contingency reserve

Drivers		Percentage			Amount (range) dollars in millions		
	Decisions that will reduce the contingency reserve						
↓	Reduce Pension Discount Rate from 6.4%	6.3%	to	6.2%	\$30	to	\$65
	Decisions that will increase the contingency reserve						
↑	Adopted 2016 Premium rate increase			2.0%*			\$29
	Continue operational efficiencies				\$35	to	\$70
	This will either reduce or increase the contingency reserve						
↔	Investments				\$X	to	\$Y

* Includes Supplemental Pension Fund rate.



State Fund Results

“Net Income”

July 2015 through September 2015

Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

=

Net Income
\$10 M



Insurance Operations

July through September
(in millions)

		Three Months Ended	
		September 30, 2015	September 30, 2014
We took in (Premiums Earned)	+	\$ 518	\$ 482
We spent (Expenses Incurred)			
Benefits Incurred		615	498
Claim Administrative Expenses		75	44
Other Insurance Expenses		22	21
Total Expenses Incurred	-	712	563
Net Loss from Insurance Operations	=	\$ (194)	\$ (81)

Net loss from insurance operations is normal for workers compensation insurers who routinely rely on investment income to cover a portion of benefit payments.

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income
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Premiums Earned

July through September
(in millions)

Three Months Ended

	September 30, 2015	September 30, 2014	Difference
Standard Premiums Collected	\$ 519	\$ 485	
Less Retrospective Rating Adjustments	(7)	(11)	
Net Premiums Collected	512	474	
Changes in future Premiums Amounts To Be Collected	40	34	
Changes in future Retrospective Rating Adjustment Refunds	(34)	(26)	
Net Premiums Earned	\$ 518	\$ 482	\$ 36

Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

=

Net
Income



Benefits Incurred

July through September
(in millions)

Three Months Ended

	September 30, 2015	September 30, 2014	Difference
Benefits Paid	\$ 394	\$ 406	\$ (12)
Total Change in Benefit Liabilities	221	92	129
Benefits Incurred	\$ 615	\$ 498	\$ 117



Investment Income

July through September
(in millions)

		Three Months Ended	
		September 30, 2015	September 30, 2014
Investment Income Earned from Dividends and Interest	+	\$ 124	\$ 123
Realized Gains from Fixed Income Investments Sold	+	4	8
Realized Gains from Stocks (Equity Investments) Sold	+	56 *	1
Total Investment Income	=	\$ 184	\$ 132

*Equities were sold to rebalance the portfolio.

Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

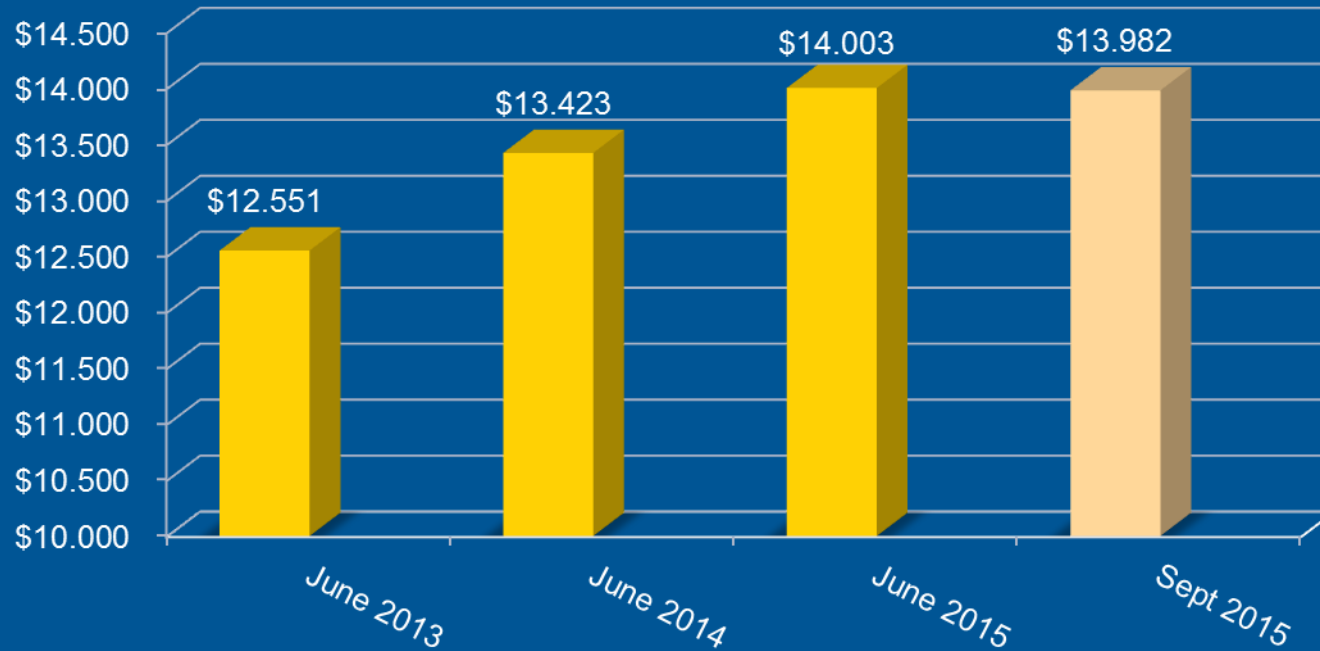
=

Net
Income



Total Investments

(rounded to billions)



Insurance
Operations

+

Investment
Income

+

Other
Revenues
and
Expenses

=

Net
Income



Results of Operations

July 2015 through September 2015

Insurance Operations	+	Investment Income	+	Other Revenues and Expenses	=	Net Income (Loss)
(\$194) million	+	\$184 million	+	\$20 million	=	\$10 million



How Did Contingency Reserve Perform?

July 2015 through September 2015

Change (\$269) million

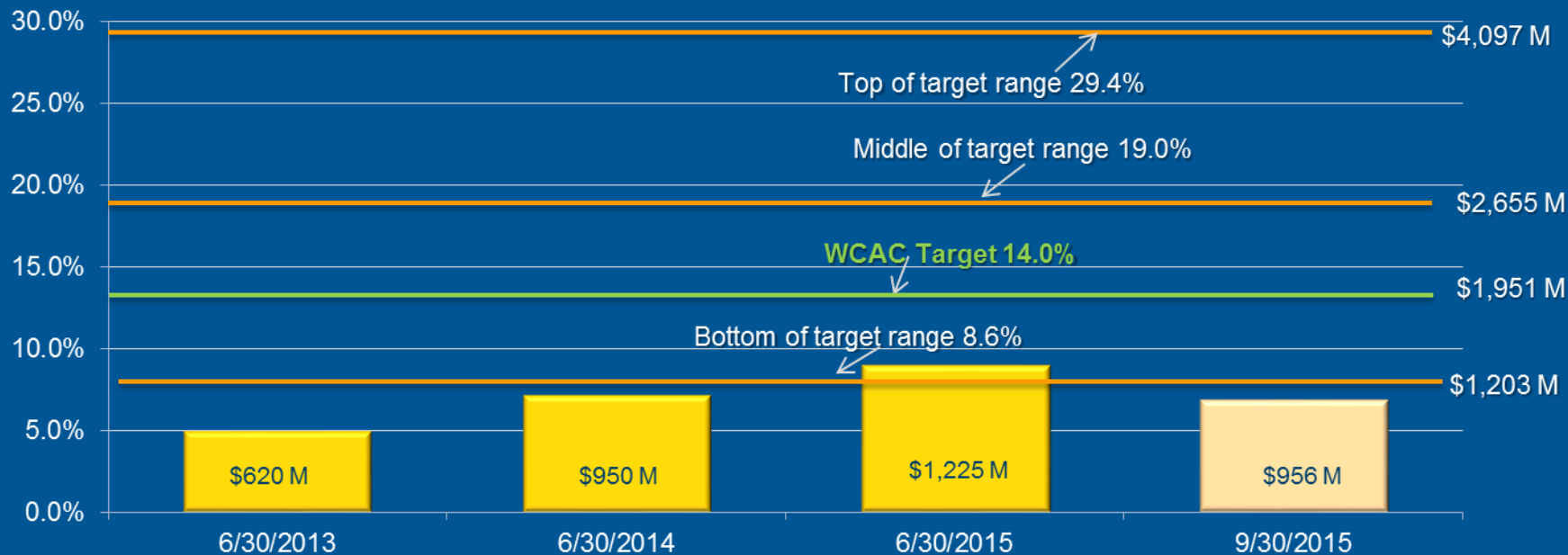
Beginning Contingency Reserve as of June 30, 2015	+	Net Income (Loss)	+	Unrealized Capital Gain/(Loss)	+	Non-Admitted Assets	=	New Contingency Reserve as of September 30, 2015
\$1,225 million	+	\$10 million	+	(\$276) million	+	(\$3) million	=	\$956 million

With equities restated to reflect the stock market rebound in October, the contingency reserve would be \$1,072 million, 7.7% of total liabilities, on November 30, 2015.



Combined Contingency Reserve vs. Targets

Combined Contingency Reserve is 6.9% of Total Liabilities

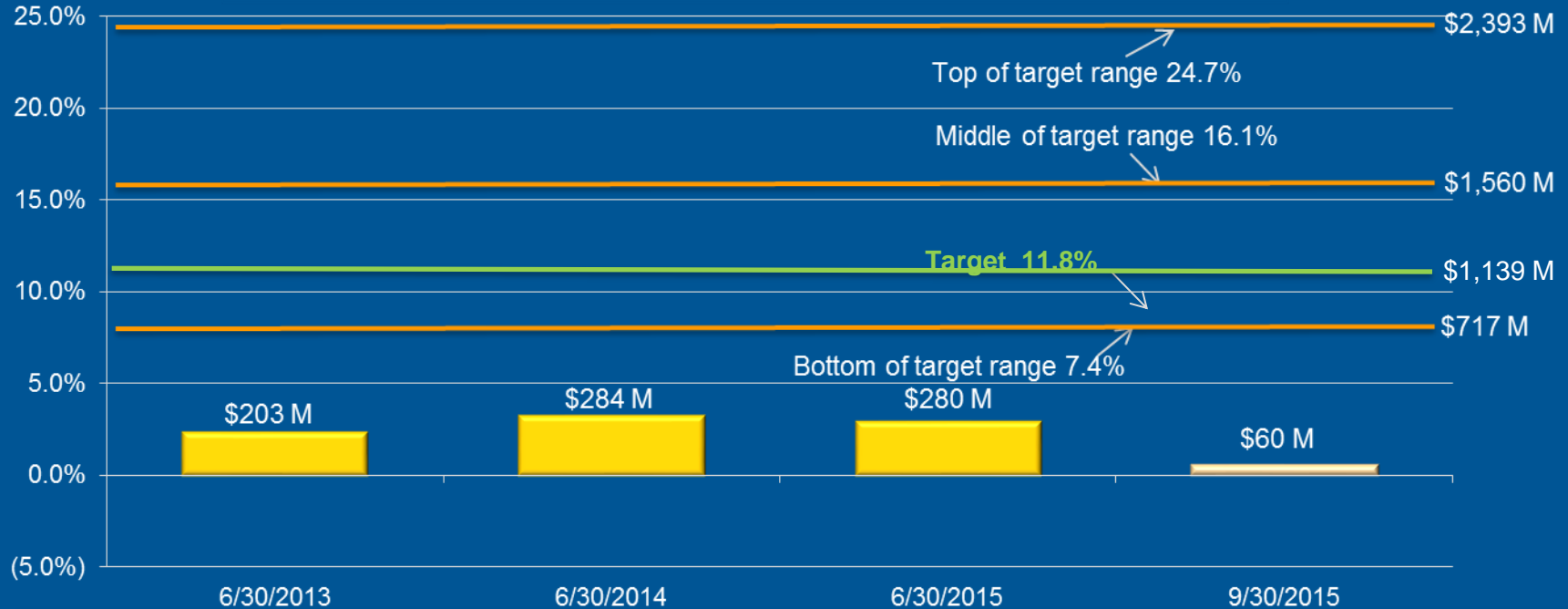


With equities restated to reflect the stock market rebound in October, the contingency reserve would be \$1,072 million, 7.7% of total liabilities, on November 30, 2015.



Accident & Pension Contingency Reserve vs. Targets

Accident & Pension Contingency Reserve is 0.6% of Liabilities

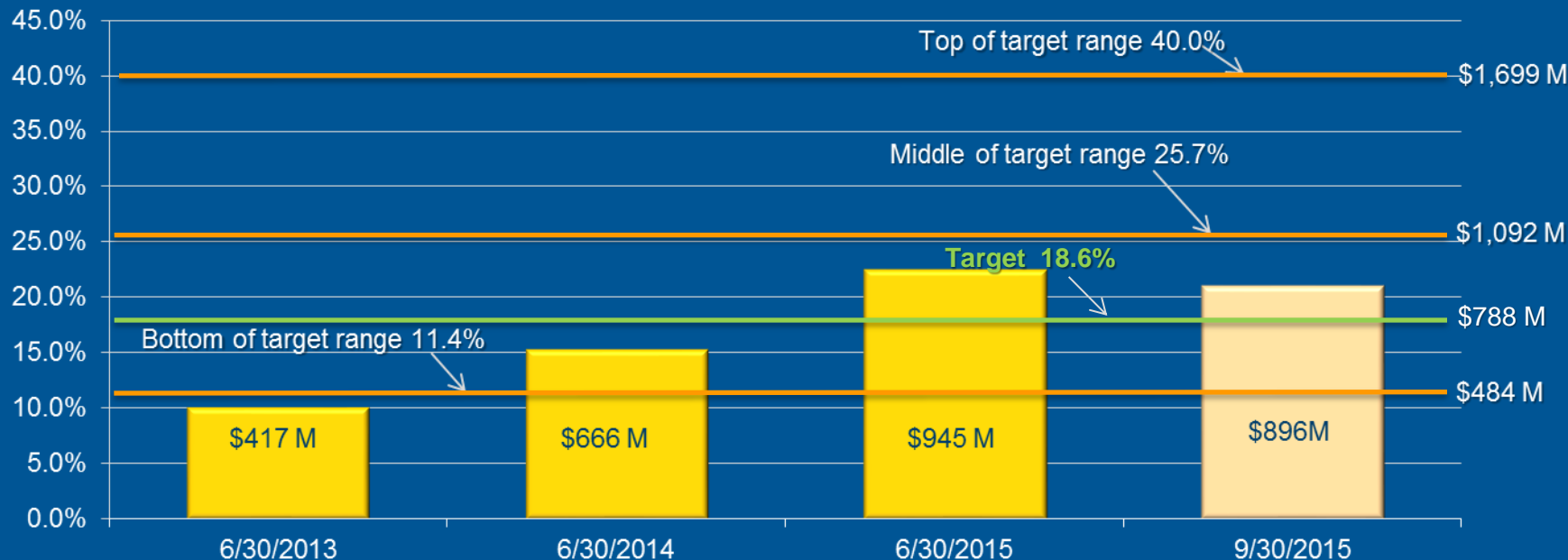


With equities restated to reflect the stock market rebound in October, the contingency reserve would be \$125 million, 1.3% of total liabilities, on November 30, 2015.



Medical Aid Contingency Reserve vs. Targets

Medical Aid Contingency Reserve is 21.1% of Total Liabilities



With equities restated to reflect the stock market rebound in October, the contingency reserve would be \$947 million, 22.3% of total liabilities, on November 30, 2015.



Key Financial Ratios as a percentage of premium earned

Ratios	Quarter Ended September 30, 2015		Quarter Ended September 30, 2014	Calendar Year	Fiscal Year Ended
	State Fund	Industry Forecast		January to September 2015	June 30, 2015
Current Year Benefit (Loss Ratio)	87.6%		87.3%		92.4%
Prior Year Benefit (Loss Ratio)	31.3%		16.0%		11.6%
Total Benefit (Loss Ratio)	118.9%	60.2%	103.3%	108.2%	104.0%
Claim Administration Expense (CAE) Ratio	14.5%	13.8%	9.2%	12.6%	11.4%
Sub-Total: Benefit and Claim Administration Expense Ratios	133.4%	74.0%	112.5%	120.8%	115.4%
Underwriting Expense Ratio includes all insurance administrative expenses except CAE	4.1%	24.5%	4.2%	4.8%	4.7%
Combined Ratio	137.5%	98.5%	116.7%	125.6%	120.1%
Investment Income Ratio	24.0%	17.3%	25.5%	26.4%	27.3%
Operating Ratio	113.5%	81.2%	91.2%	99.2%	92.8%

Note: a ratio of 100% would indicate that costs = premium for the period



Questions & Comments

Contact Rob Cotton,
Workers' Compensation Accounting Manager

Phone: 360-902-6263

Email: cotr235@lni.wa.gov.

Thank You!



Historical Investment Performance

	Three Months Ended		Fiscal Year Ended			
	September 30, 2015	September 30, 2014	June 30, 2015	June 30, 2014	June 30, 2013	June 30, 2012
Investment Income	124,508,000	122,943,000	493,408,000	479,774,000	465,868,000	481,892,000
Realized Gain (Loss)	59,504,000	8,795,000	58,660,000	303,184,000	87,405,000	547,771,000
Unrealized Gain (Loss)	(275,793,000)	(42,717,000)	23,691,000	200,333,000	266,041,000	(546,428,000)
Total Invested Assets	13,981,950,000	13,534,892,000	14,003,302,000	13,422,957,000	12,550,887,000	11,908,149,000

Unrealized gain (loss) changes are impacted mostly by stock market results, and are commonly known as “paper” profit or losses which imply that they have not been “cashed in.”



7-Year Reserve Benchmarks

Update: \$956 million contingency reserve or just above 6.9% of total liabilities.

7-Year Interim Targets

Year	Contingency Reserve Target (range)	Pension Discount Rate (PDR) Target (range)	Contingency Reserve (CR) Yearly Goal (displays steady growth) <small>dollars in millions</small>
<i>Fiscal Year Ended June 2015</i>	9.1%	6.4%	\$1,225
2014 Target	5-7%	6.5 - 6.3%	\$652 to \$902
2015 Target	6-8%	6.3 – 6.2%	\$797 to \$1,032
2016	7 - 9%	6.4 – 6.25%	\$ 884 to \$1,293
2017-2018	8 - 11%	6.0 – 5.75%	\$ 1,029 to \$1,583
2019-2020	10 - 13%	5.5 – 5.25%	\$ 1,317 to \$1,879
2021-2022	13 - 15%	5.0 – 4.5%	\$ 1,753 to \$2,198
7-Year Contingency Reserve Goal			\$2,198

When the WCAC developed the 10-year plan in Sept. 2012, the contingency reserve was at \$590M and the PDR was at 6.5%

Each tenth of a percent the PDR drops, the CR could reduce between \$30 to \$50 million.



WCAC FINANCE COMMITTEE

Randi Warick



Goals of Committee

- Review the 10-year plan
 - Pension Discount Rate Advice
- Long-Term Investment Strategy Advice
 - Does it make sense to diversify



What we have done this quarter

- Discussed the Pension Discount Rate
- Educational Sessions:
 - Where and how SIB invests state pension funds
 - How other workers' compensation funds invest
 - Asset allocation options



Pension Discount Rate Recommendation

Discount rate for all pensions	State Fund Contingency Reserve (\$M)	Self-Insured 2 nd Injury Fund (\$M)	Self-Insured Cash Funded Pensions (\$M)
6.35%	\$16	\$3	\$1
6.30%	\$31	\$6	\$1
6.25%	\$47	\$9	\$2
6.20%	\$62	\$12	\$2
6.15%	\$74	\$14	\$3
6.10%	\$89	\$17	\$3
6.05%	\$105	\$20	\$4
6.00%	\$126	\$24	\$4
5.75%	\$205	\$39	\$7
5.25%	\$372	\$71	\$13
4.50%	\$648	\$123	\$24



Next Steps

- Discuss long-term investment strategy with the WCAC



BREAK



INSURANCE SERVICES PERFORMANCE METRICS DASHBOARD

Vickie Kennedy, Assistant Director for Insurance Services

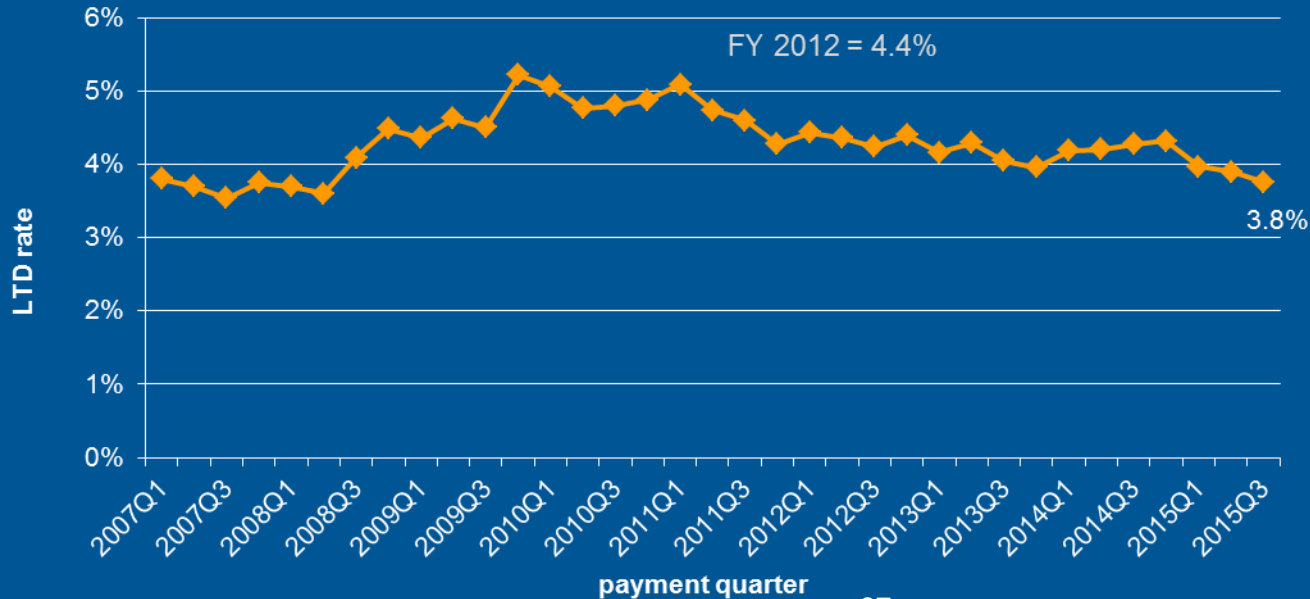


Outcome Measures: Healing and Return to Work



Our ultimate goal is to reduce the number of injured workers who experience long-term disability.

The rate at which injured workers experience long-term disability



The goal is to
decrease
this number



Early indicator of RTW success is fewer injured workers staying on time-loss from three to six months.

Three to six month persistency of claims on TL.

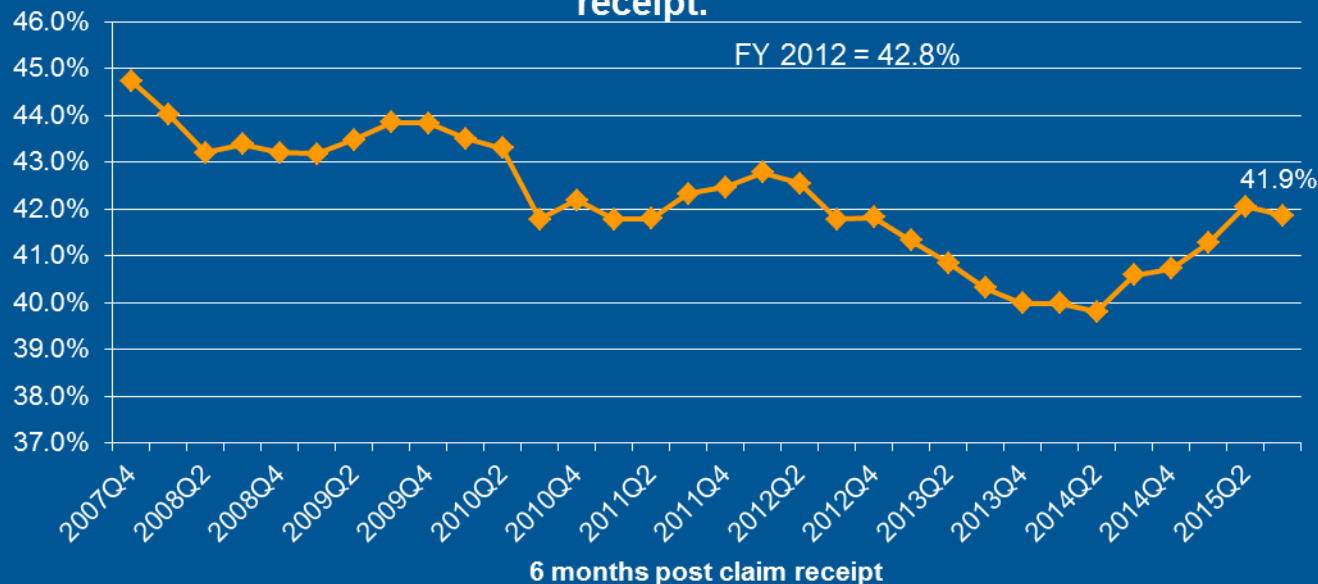



The goal is to
decrease
this number



Early claims resolution is another indicator of RTW success.

Percent of TL claims resolved within 6 months of claim receipt.



 The goal is to increase this number

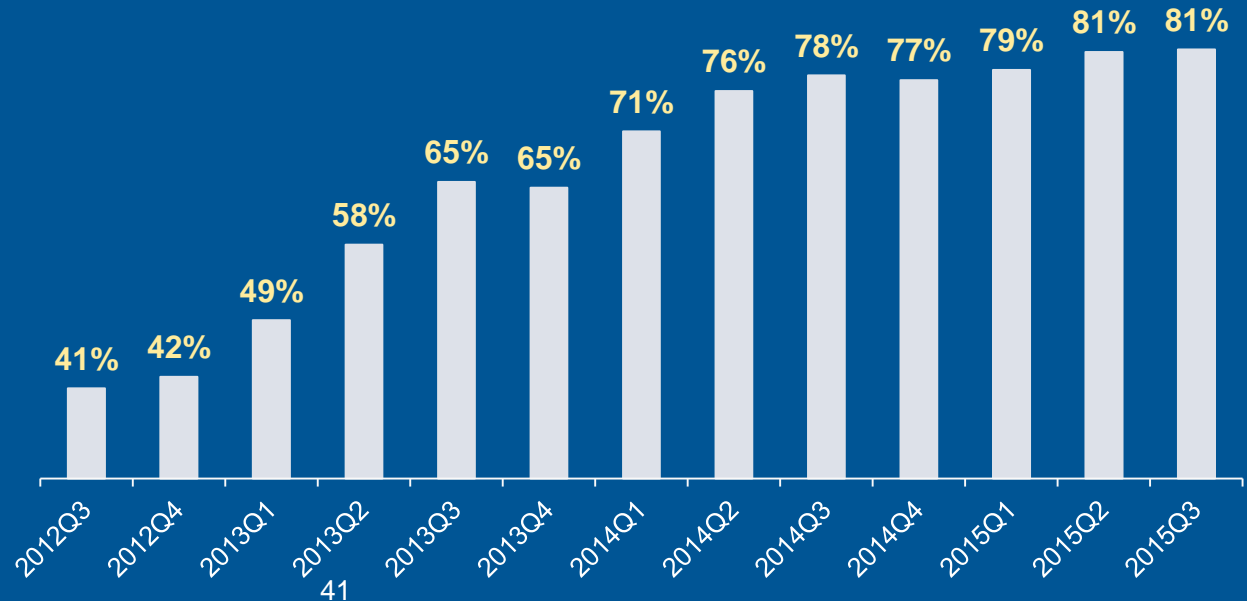


Operational Measures: Healing and Return to Work



Increase early calls to injured workers missing time from work - first calls have been shown to be effective in establishing trust, identifying barriers, and setting return to work expectations.

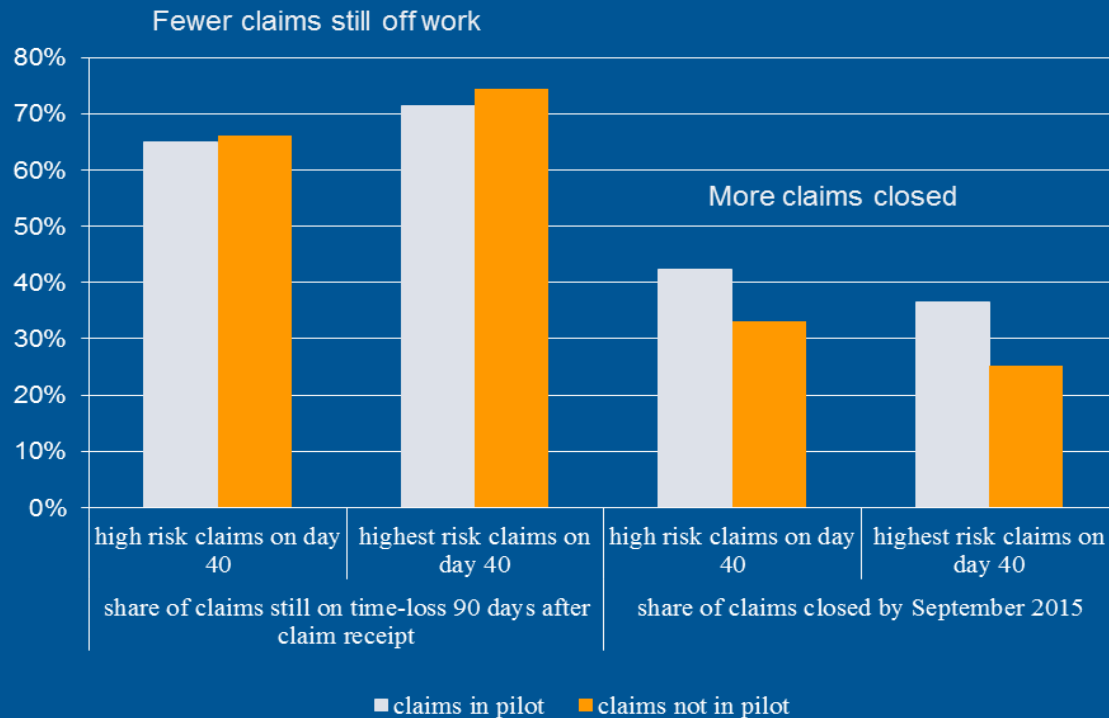
More than 80% of injured workers, who miss time from work, now get an early call from their claim manager.





Predictive analytics are now used to target early return to work services for the highest risk injured workers off work 40 days after claim receipt.

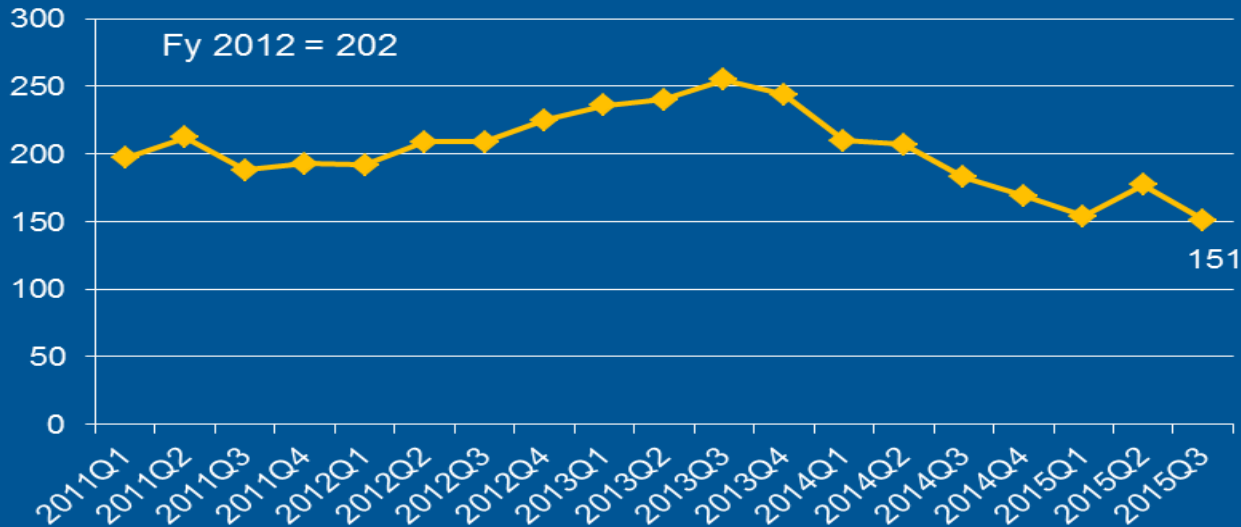
Results of risk score pilot.





About a quarter of injured workers on time-loss pass through the ability to work assessment (AWA) process – 10,000 new referrals each year.

Median TL days to first AWA referral



Decreasing days to the first AWA referral, increases service delivery for our highest risk claims.



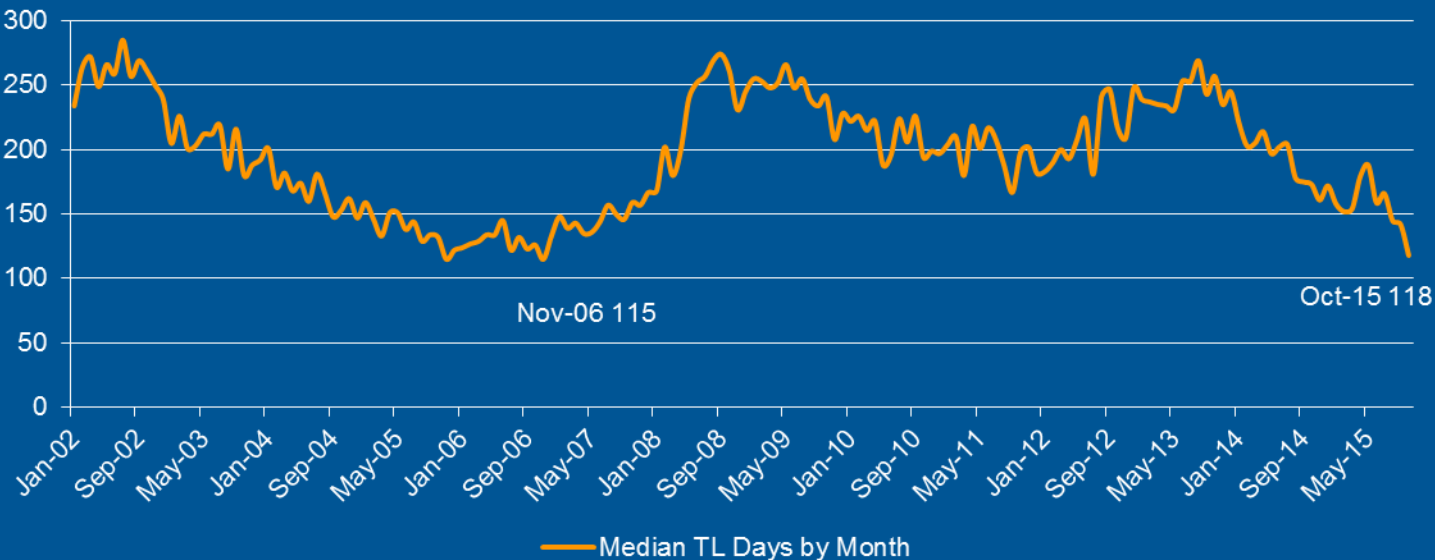
The goal is to decrease this number



Monthly data shows impact of rolling out early AWA pilot for all claim managers.

Median time-loss days to first AWA referral

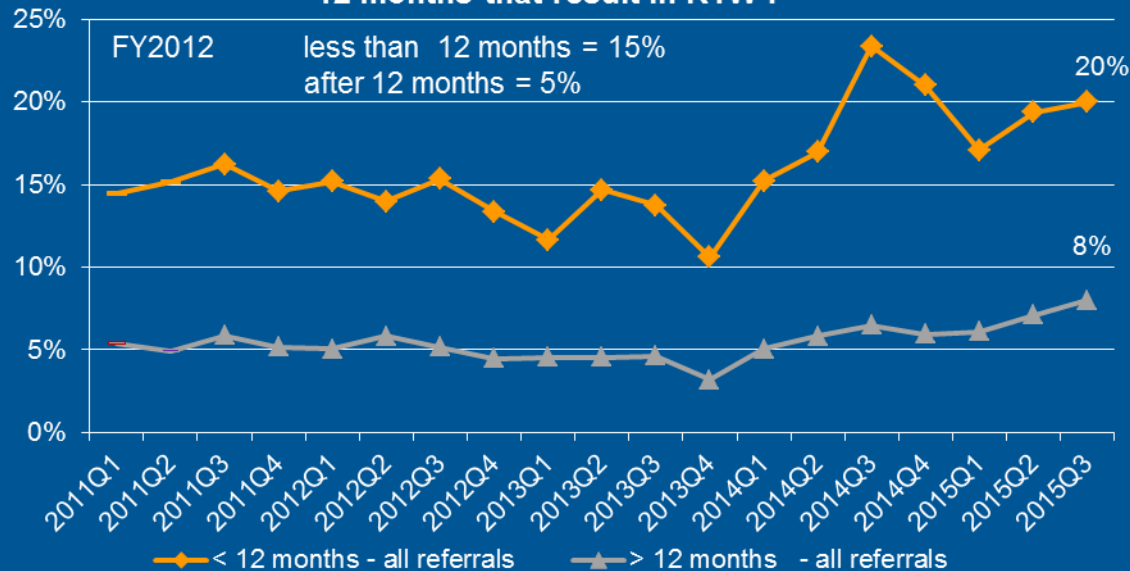
 The goal is to decrease this number





The share of RTW outcomes is increasing both for early referrals and those made after 12 months.

Share of AWA referrals made in less than 12 months and after 12 months that result in RTW .

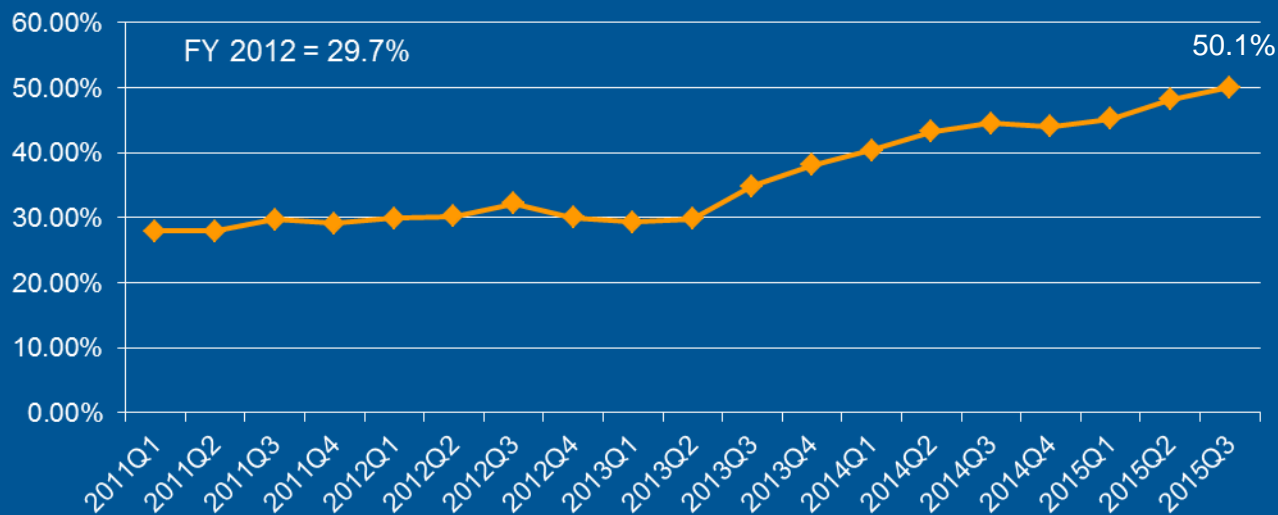


 The goal is to increase this number



COHE Providers Help Achieve Good Outcomes for Injured Workers

Percent of TL claims initiated with a COHE provider.

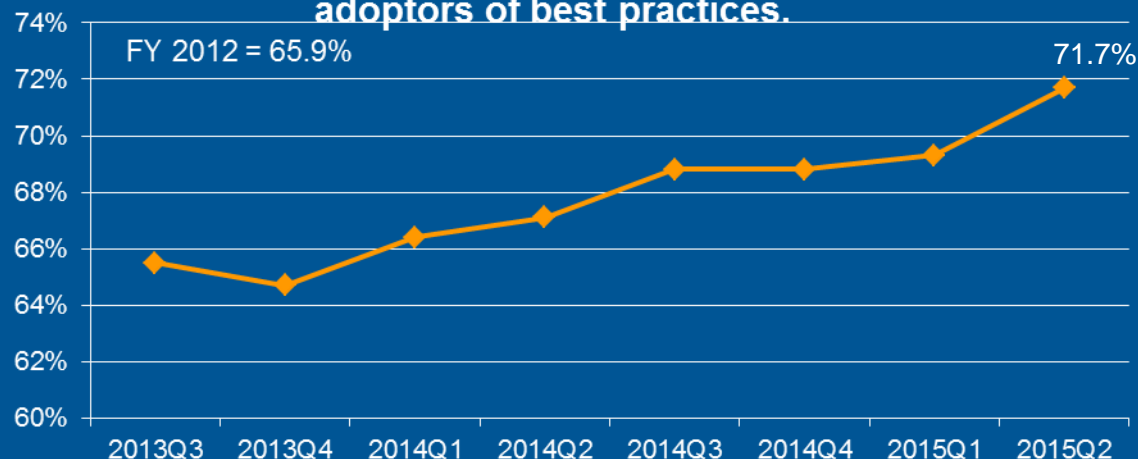


 The goal is to increase this number



L&I Partners with COHE Medical Providers to Adopt Occupational Health Best Practices

Share of COHE providers that are medium or high adoptors of best practices.



 The goal is to increase this number



Questions



WORKERS' COMPENSATION JLARC AUDIT

Matt Bryant, WorkComp Strategies

L&I Claims Management Performance Audit

Consultant's Presentation to WCAC
December 9, 2015

Agenda

- Brief background of audit process, claim data being tested
- Summary of expectations vs. observations
 - Disability duration
 - Performance measurement
 - Additional areas for service and efficiency gains

Summary

- Arrived at a consolidated list of opportunities
- Fit within two themes
 1. Disability durations
 2. Performance measurement
- Additional areas for service and efficiency gains
 - Some would require statutory changes
 - Focus today is on administrative changes, not statutory
- Note: some changes would impact staffing, work levels

Disability Duration

- CM performance opportunities
- Administrative opportunities

CM Performance Opportunities

1. Prioritize early 2-point phone contact

- Promotes better case investigation; insight into case risks, issues; relationship building; improved communications; sets expectations regarding RTW
- Foundation for claim management plan
- 32% of reviewed files (2010-13) showed actual voice contact by CM with worker w/in 30 days

2. Prioritize claim management planning

- Plan should be in place promptly, should shortly follow completion of contacts, claim investigation
- Would include documentation of contacts, actions taken and needed, risks, options, planned interventions, and consults

CM Performance Opportunities

3. Connect RTW training with performance management
 - Incorporate outcome-oriented practices in training; e.g., role-play training on making calls; “team triage” on selected claims
 - Should be ongoing, connected with performance measurement, data systems and analytics, remediation training and coaching
4. Standardize claim file documentation
 - Standardize claim file documentation, esp. claim management plan; would include documentation of contacts, actions taken and needed, risks, options, planned interventions and consults
 - Need clear expectation on items to be documented, tied to performance measurement and coaching

Disability Duration

- ✓ CM performance opportunities
- **Administrative opportunities**

Administrative Opportunities

1. Integrate predictive analytics into claims management processes
 - Expect this would apply to two areas
 - “At-risk” claim identification, i.e., claims that are statistically at risk of prolonged duration (currently underway)
 - Statistical identification of “interventions that matter”
 - Revision of best-practice approach based on scoring
2. Clarify file confidentiality practices
 - Lack of clarity about confidential aspect of file documentation
 - Need to adopt clear policies, training on how to utilize confidential areas of file while maintaining stakeholder access

Administrative Opportunities

3. Implement RTW standard practices

- AWA used as an “adjudicative” tool; the adjudicative approach not really an RTW tool; new terms and definitions needed (changes currently underway)
- Selection criteria for re-training plans should be more focused

4. Improved information system

- Need outcome-based triggers, dashboards, alerts
- Integrated with analytical and claims management tools

Performance Measurement

- Unit and CM level performance indicators
 - Outcome-based measurements tied to unit performance evaluation; e.g., RTW rate
 - Could also tie to multi-disciplinary team performance
 - Tie CM measurement with performance goals, e.g., success at RTW tied to particular services, actions, inactions
 - Helps identify actions, interventions that lead to better outcomes
- Publish annual performance report
 - Highlights, e.g., key performance indicators, trends, strategic initiatives
 - Potential for improvement with WCAC reporting?

Additional Areas for Service and Efficiency Gains

1. Advancement of practice standards for occupational medicine, vocational services
 - Better customer service; improved RTW outcomes; reduction of unnecessary CM activities
 - Several changes currently underway
2. Expanded ombuds role
 - Better customer service; simpler procedures
3. Increased use of FileFast
 - Efficiency gains

Additional Areas for Service and Efficiency Gains

4. More protest review by Claim Consultants or other senior-level staff
 - Improves efficiency; makes protest results more consistent
5. Online provider communications
 - Improves efficiency
6. Adjust and communicate standard dispute response times
 - Improves customer service

Other Items for Discussion

- Key, recent changes regarding RTW
 - Legislative changes (Preferred worker; option 2; VIP permanent)
 - Leveraging employer contacts by Employer Services
 - CM Training
 - Functional Recovery Questionnaire
 - RTW score

Other Items for Discussion

- Key, recent changes regarding RTW (cont.)
 - AWA timing, approach
 - Shift away from waiting until MMI for AWA
 - Change from using AWA as adjudicative tool
 - Using PBPCs to discover more what workers *can* do, as opposed to focus on what they *cannot* do
 - Focus on standard work, not simply 90-day “rule”
 - Use of re-employment specialists where appropriate

Other Items for Discussion

Caseload Analysis (covered in Consultants Report)

- Best-Practice Survey averages
 - 105: TL claims
 - 141: TL/MO claims
- L&I (CM Level 2)
 - 192: TL claims (Complexity Levels 2/3)
 - 247: TL/MO claims (Complexity Levels 1/2/3)
- Other recent, publicly available benchmark (ND)
 - 207-229: TL/MO claims (noted by auditor as high)

Other Items for Discussion

Caseload Analysis (cont.)

Potential impacts

- More focused, targeted interventions
- Less “reactive” response, service delivery
- Better understanding of complexity, difficult claims, and capacity to provide needed services
- Should be careful to balance with improved service standards, impact on claim outcomes (i.e., “ROI”)



CLOSING COMMENTS & ADJOURN

Vickie Kennedy, Assistant Director for Insurance Services
Joel Sacks, Agency Director